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Egypt

Cotton and Products

Annual

2004

Approved by:
Asif J. Chaudhry
US Embassy

Prepared by:
Ali Abdi & Sherif Ibrahim

Report Highlights:
ALCOTEXA is expected to abandon its long-standing policy of controlling Egyptian cotton export prices at beginning of MY 2004/05. In MY 2004/05, area and production are expected to substantially increase. Egyptian cotton exports in MY 2003/04 were about 56 percent lower than MY 2004/05, however, both exports and imports are expected to increase substantially next season.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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PSD Table

PSD Table

Country: Egypt

Commodity: Cotton

	2003		2004		2005	
	Old	New	Old	New	Old	New
Market Year Begin		**08\2003**		**08\2004**		**08\2005**
Area Planted	240000	218000	250000	315000	0	320000
Area Harvested	240000	218000	250000	315000	0	320000
Beginning Stocks	5734	5734	7734	1000	0	18000
Production	225000	190000	235500	274000	0	278000
Imports	120000	75000	120000	120000	0	80000
TOTAL SUPPLY	350734	**270734**	363234	**395000**	0	**376000**
Exports	140000	75000	150000	150000	0	130000
USE Dom. Consumption	200000	193734	200000	225000	0	224000
Loss Dom. Consumption	3000	1000	3000	2000	0	2000
TOTAL Dom. Consumption	203000	194734	203000	227000	0	226000
Ending Stocks	7734	1000	10234	18000	0	20000
TOTAL DISTRIBUTION	350734	**270734**	363234	**395000**	0	**376000**

Area Planted and Production

The total cotton area in MY 2004/2005 is expected to be 750,000 feddans (315,000 HA) compared to 519,000 feddans (218,400 HA) in MY 2003/2004. This substantial increase is mainly attributed to substantial increase in the MY 2002/2004 local cotton prices, which jumped from LE 500 to LE 1100 per Kentar (1 Kentar= 50 Kg). This encouraged farmers to plant cotton rather than other summer crops such as corn and rice. As a result, a larger cotton crop is expected in the MY 2004/2005. Industry sources estimate that cotton production may increase to 274,000 MT (6.5 million Kentars), or about 44 percent higher than the MY 2003/2004 cotton production.

In MY 2004/2005, 77,000 HA or about 25 percent of the total Egyptian cotton crop is expected to be extra long staple (ELS) varieties (i.e., staple lengths of 1 3/8 inches and above), same percentage as was in MY 2003/2004. This is mainly due to the increased demand for ELS cotton varieties by the new export-driven modern spinning mills. Major ELS varieties are Giza 45, Giza 70 and Giza 88. These three varieties are considered to be among the finest cottons produced in the world. The remainder of the crop is comprised of long staple (LS) varieties (i.e., staple lengths of 1/14 inches): Giza 86, Giza 89, Giza 85, Giza 80, Giza 83 and Giza 90. Every year the government specifies certain varieties of cotton for each region and farmers are obligated to cultivate those varieties according to their respective areas. The Ministry of Agriculture continues to be the sole distributor of cotton seed. The Egyptian government continues to provide some assistance to cotton farmers who cultivate cotton before March 31 (not many farmers cultivate cotton before March 31) to help with the cost of production such as land preparation, pesticide and planting seeds. It is estimated that the government will provide cotton farmers total support equivalent of LE 276 per feddan in MY 2003/2004, compared to LE

230 per feddan in MY 2002/03 (one feddan equals approximately one acre).

Overall, cotton lint yields for MY 2003/2004 crop averaged 7.3 Kentar lint cotton per feddan (1 Kentar= 50 Kg) compared to 7.9 kentar per feddan in MY 2002/2003. Yields for MY 2004/2005 crop are expected to be about the same as MY 2003/2004 provided that weather conditions remain normal for the rest of the growing season.

Consumption and Utilization

The consumption of local cotton has been declining in the past few years. Until few years ago, the textile industry's annual requirement of raw cotton used to average between 5.5 to 6 million kentars (275,000 to 300,000 MT). However, total local consumption in MY 2003/2004 is expected to amount to only 193,734 MT. The downward trend in cotton consumption is attributed mainly to the higher price of domestic cotton in addition to financial difficulties that most textile companies face . As a result of the high price of Egyptian cotton, about 60 percent of total cotton consumption was imported last year mainly from Greece and Sudan to be used in the production of course count fabrics (i.e. Ne 20/1 to Ne 30/1), which is used for shirts, knitwear and toweling. Textile and garment exporters also import fabric from cheaper sources such as Syria, Pakistan and India under the temporary admission system of imports in order to be competitive in international markets. However, in MY 2004/2005, total consumption is projected to increase to 225,000 MT. This expected increase is mainly attributed to expected increase in both production and imports.

Prices

The nominal level of farm floor prices for all varieties is calculated based on indicative cost of production plus profit margin. For example, in the 2003/2004 season, the average procurement guarantee price was initially set at LE 500 per kentar then increased to LE 750 per Kentar. However, farmers did not delivered any cotton to the government at this price because cotton prices were as high as LE 1100 per Kentar due to the historically small crop. The government has not yet announced a gurantee procurement price for the 2004/2005 cotton crop which will be harvested in September 2004. However, most industry experts expect that the average price for the 2004/2005 crop will be about LE 850 per Kentar. This is mainly due to the expected larger crop and increase of imported cotton. Local mills purchase Egyptian cotton at the export price minus the FOB cost, which is about 10 cents per pound. Traditionally, Egyptian export prices have been set by the Alexandria Cotton Exports Association (ALCOTEXA). However, according to traders, ALCOTEXA will abandon this long standing policy at the beginning of the next season (September, 2004). If this policy comes into fruition, trading companies will be in a position to sell their cotton at prevailing market prices. Moreover, individual firms will have the flexibility to price their cotton freely. For example, unlike last season, local trading companies will no longer be required to honor contracts from local government mills for long staple cotton varieties. This could result in exports of increasing quantities of long staple cotton varieties and less available stocks of long staple cotton for domestic mills, especially if trading companies are able to sell their LS varieties at a premium in overseas markets. Domestic mills will need to import higher quantities of short staple cotton or pay more for Egyptian long staple cotton. Last year, local mills consumed all quantities of Egyptian long staple cotton in the market (150,000 MT). Hence, no quantities of Egyptian LS varieties were exported.

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Government Policy

Given the short supply of cotton in the country, in October 2003, Cotton & Textile Industries committee members decided to withhold the exportation of Egyptian long and medium long varieties (Giza 80, Giza 83, Giza 90, Giza 85 and Giza 89). These varieties were sold to local mills at LE 450 per kentar (50 Kg) compared to LE 580 per kentar for imported cotton from Greece. ELS varieties are exported and export quantities are distributed as quotas among members of ALCOTEXA, based on the volumes exported in the last three consecutive seasons as a general average. A certain percentage of the season's crop is earmarked for new ALCOTEXA companies, as an incentive to encourage them to export. Last year, domestic procurement prices for exporting varieties (ELS) were fixed as follows:

Variety	LE / seed cotton kantar Grade G + 1/4
G-70	775
G-88	775
G-86	675

In 2004, the government discontinued its local support program for the local mills. This program began in 2002 by paying traders the difference between the procurement prices for cotton from LS cotton producers and the subsidized prices to local mills. For example the declared price for upper Egypt varieties (LS) was LE 311 per kentar, but traders delivered this cotton to local public sector mills at LE 250 per kentar. Traders were paid by the government for the difference, LE 61 per Kentar in this case. This program started in the 2002 season with LE 50 million for Upper Egypt's cotton varieties (LS) only, but increased to LE 200 million in 2003 to include all varieties except for ELS varieties.

The extremely high customs duties which were instituted for garment imports in early 2002 in lieu of a total import ban were reduced to 40 percent in January 24,2004, by the Presidential Decree No.35 of 2004. The objective of this policy is to improve the competitiveness of the local garment industry in order to stay competitive with imports.

Trade

In MY 2003/2004, private sector companies' share of total export contracts decreased to 51 percent from about 44.4 percent in MY 2002/2003. This is primarily because private sector companies had more flexibility than public sector companies to sell their cotton in the international market. Egypt's cotton exports in MY 2003/04 were about 56 percent lower than the MY 2002/03 level. Egyptian cotton exports during the 2003/04 season declined dramatically due to the decrease in both production and imports. However, Egyptian cotton exports in MY 2004/05 are expected to reach 150,000 MT (or doubled the quantity that was exported in MY 2003/04). This is mainly due the expected increase of both production and imports.

In MY 2003/2004 (Sept-Oct), Egypt so far imported so far a total of 52,000 MT of short staple cotton, of which 34,500 MT came from Greece at a reported price of between $ 0.61 and $ 0.70 per LB C&F, 13,000 MT of Acalla cotton from Sudan at a reported price of $ 0.55 per LB

C&F, 4000 MT of Brakat cotton from Sudan at $ 0.92 per LB C&F. Imports for MY 2004/2005 are expected to increase to 120,000 MT due to decrease in production and depletion of stocks in MY 2003/2004.

Importing cotton into Egypt from any source is subjected to the following quarantine regulations:

-Importers must obtain import permission from the Agricultural Quarantine Office before contracting.
Shipping of imported cotton must be made directly from the country of origin.

-In the case of importing from countries where vacuum fumigation is not available, shipments must be re-fumigated under vacuum with Methyl Bromide in Egyptian ports under the supervision of Egyptian Agricultural Quarantine.

-Visits by Egyptian plant quarantine officials to potential cotton exporting countries will be arranged to review pest and disease status in these countries.

Export Trade Matrix

Export Trade Matrix			
Country:	**Egypt**	Units:	
Commodity:	**Cotton**		
Time period:			
Exports for	**2002**		**2003**
U.S.	15,856	U.S.	3,490
Others		Others	
India	44,290	Switzerland	11,789
Italy	28,760	India	8,797
Switzerland	19,750	Italy	8,741
S.Korea	12,843	Pakistan	5,875
Pakistan	10,350	S.Korea	5,271
China	5,877	Japan	3,373
Turkey	5,070	Thailand	3,307
Germany	3,633	Turkey	2,917
Japan	3,423	Germany	2,637
Thailand	3,232	Portugal	2,181
Total for Others	137228		54888
Others not listed	17,930		16,622
Grand Total	171014		75000

Stocks

Given the substantial decrease in production and imports in MY 2003/04, stocks are expected to reach a record low of 1,000 MT. However, stocks are projected to substantially improve in MY 2004/05. The expected increase in cotton stocks is mainly due to the expected increase in both production and imports.

Factors Affecting US Exports

Until few several years ago, most Egyptian cotton imports originated from the U.S. (only from California and Arizona) because the GOE considers only these two States to be free of boll weevil. Egypt requires that all imported cotton be grown in areas free of pests (e.g., boll weevil) and diseases that are, or could be harmful to domestic production. However, Egypt changed its import requirements and began allowing imports from other suppliers including Greece, Syria, Sudan and Ethiopia. This reduced the price competitiveness of the U.S cotton because of the freight differential. However, with the new development of boll weevil status in several US states, which are declared a boll weevil free, there is a good potential for US cotton originating from states other than California and Arizona. FAS Cairo is currently working with the Ministry of Agriculture, in cooperation with APHIS and U.S. Industry to allow the importation of U.S. cotton from all U.S. states that are boll weevil- Free. In addition the availability of the GSM-102 export credit program and other export credit programs may help increase the competitiveness of U.S. cotton exports to Egypt.